**EC1110 - Microeconomics**

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**Answer Key Assignment 2**

**For 6th Edition**

**Chapter 4**

**36U.** **Key Problem**

a) see Table 4.21 (completed)

**Table 4.21 (completed)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Price of Mangos** | **Quantity of Mangos Demanded** | **Total Revenue** | **Price of Pineapples** | **Quantity of Pineapples Demanded** | **Total Revenue** |
| $0.30 | 33 | **$9.90** | $2.25 | 17 | **$38.25** |
| 0.40 | 30 | **10.20** | 2.50 | 16 | **40.00** |
| 0.50 | 27 | **13.50** | 2.75 | 14 | **38.50** |
| 0.60 | 24 | **14.40** | 3.00 | 12 | **36.00** |
| 0.70 | 21 | **14.70** | 3.25 | 9 | **29.25** |
| 0.80 | 18 | **14.40** | 3.50 | 6 | **21.00** |
| 0.90 | 15 | **13.50** | 3.75 | 3 | **11.25** |

b) Price: $0.70 for mangos and $2.50 for pineapples since these prices produce maximum total revenue for the sellers.

c) Elasticity: 0.87; change in TR: − $0.30; Elasticity: 1.15.; change in TR: −$0.30.

d) When demand is inelastic, a fall in price leads to a fall in total revenue and when demand is elastic a rise in price also leads to afall in total revenue.

e) Yes, the same price (TR is now $45)

f) Cross Elasticity: + 0.33; substitutes

g) income elasticity: + 1.36; both a normal good and a luxury good (elasticity greater than 1)

**Chapter 5**

**36U.** **Key Problem**

a) See following table:

**Table 5.27 (completed)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Fishing** | | | Tennis | | |
| **No. of Hours** | **Total Utility** | **Marginal Utility** | **No. of Hours** | **Total Utility** | **Marginal Utility** |
| 1 | 31 | **31** | 1 | 38 | **38** |
| 2 | 60 | **29** | 2 | 72 | **34** |
| 3 | 87 | **27** | 3 | 102 | **30** |
| 4 | 111 | **24** | 4 | 130 | **28** |
| 5 | 131 | **20** | 5 | 152 | **22** |
| 6 | 149 | **18** | 6 | 170 | **18** |
| 7 | 161 | **12** | 7 | 184 | **14** |
| 8 | 167 | **6** | 8 | 194 | **10** |

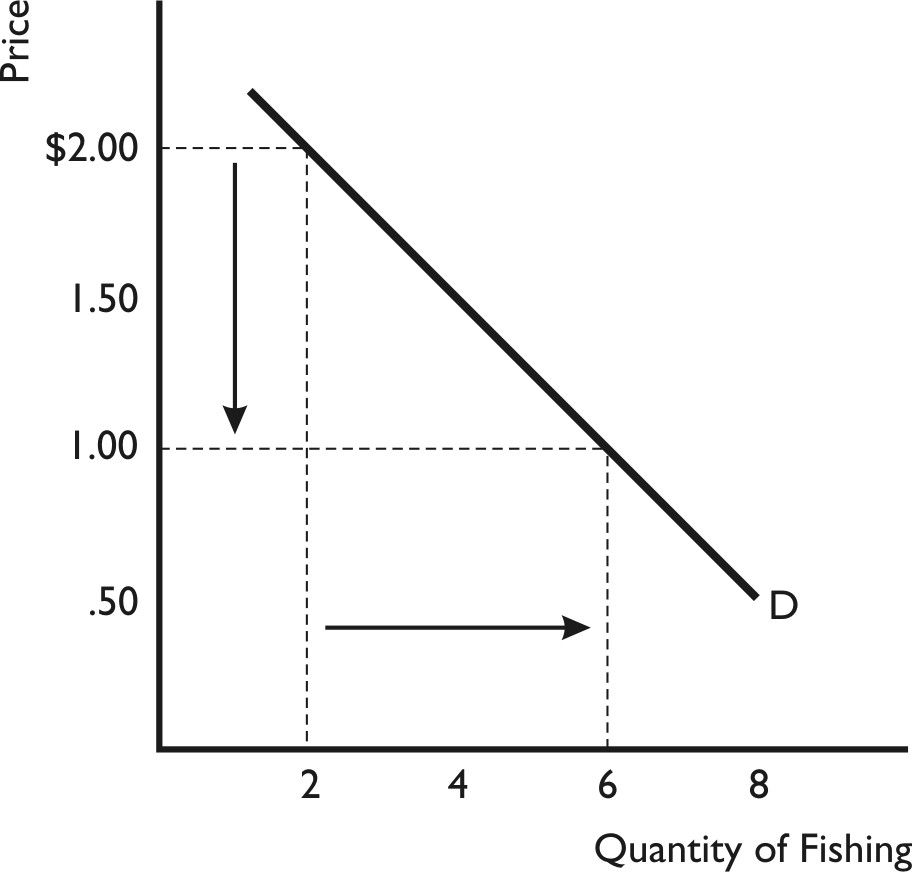
b) 1 hour fishing (31 utils) and 3 hours tennis (102 utils). Total utility = 133 utils.

c) 2 hours fishing (60 utils) and 4 hours tennis (130 utils). Total utility = 190 utils.

d) 6 hours fishing (149 utils) and 3 hours tennis (102 utils). Total utility = 251 utils.

1. See following figure:

**Figure 5.13 (Completed)**



f) When the price of boat rentals fell, the demand for tennis court rentals (a substitute product) will decrease, i.e. the demand curve shifts left.